
SOUTH FLORIDA WATER MANAGEMENT DISTRICT



Audit of the Everglades Construction Project Fund

Audit # 98-09

**Prepared by
Office of Inspector General**

**Allen Vann, Inspector General
Timothy Beirnes, Senior Auditor**

MGT 08-06F

June 11, 1999

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Re: Final Report – Audit
of the Everglades
Construction Project
Fund Report # 98-09

This audit was performed pursuant to the Inspectors General's authority set forth in Chapter 20.055, F.S. The audit focused on determining if revenues and expenditures for the ECP were properly identified and accounted for as Everglades Trust Fund transactions. Our audit covered the project from inception through September 30, 1998. Fieldwork was conducted between September 1998 and April 1999. This report was prepared by Timothy Beirnes.

Sincerely,

Allen Vann
Inspector General

AV/TB
Enclosure

c: James Harvey

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INTRODUCTION

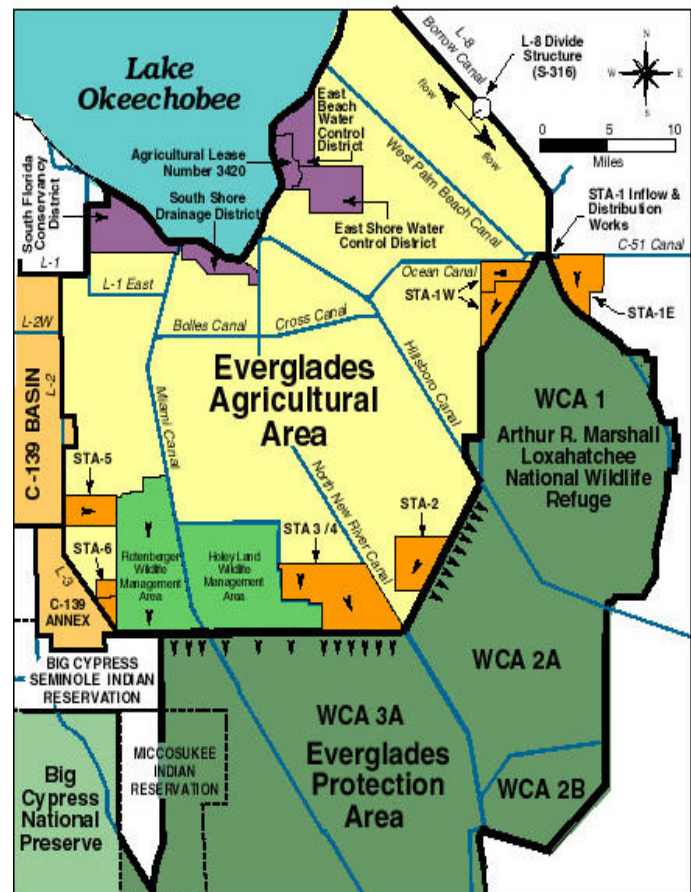
This audit report details the results of our review of Everglades Trust Fund transactions. The Everglades Trust Fund is a Capital Project Fund established in accordance with a Florida State Statute, which requires the District to "... separately account for all moneys used for the purpose of funding the Everglades Construction Project." This type of fund is usually established when acquisition or construction of a large capital project extends beyond a single fiscal year and is financed through specially designated sources. While the principal purpose of establishing the Everglades Construction Fund is to ensure the economical and legal expenditure of the designated revenues, the fund also serves as a cost accounting mechanism for controlling and accumulating the cost for this major high profile project.

BACKGROUND

In 1994, the Florida Legislature passed the *Everglades Forever Act* (EFA) which outlines the framework for the restoration of the Florida Everglades (Chapter 373.4592 Florida Statutes).

The largest part of the restoration, the Everglades Construction Project (ECP) involves building filter marshes to treat polluted water run-off from the Everglades Agriculture Area (EAA). Current estimates place the capital cost of Phase I of the Everglades Program at \$763 million of which \$685 million (90%) is for ECP projects.

The Everglades Construction Project is defined in F.S. 373.4592(2)(f) as, "... the project described in the February 15, 1994 Conceptual Design Document together with construction and operation schedules on file with the South Florida Water Management District, except as modified by this section." The EFA contains certain provisions



regarding accountability over funds dedicated to the ECP. The EFA Chapter 373.4592 (14) requires the District to, "... separately account for all moneys used for the purpose of funding the Everglades Construction Project." In Fiscal Year 1994, the Department of Management Services¹ established Fund 406, a capital project's fund, to account for the ECP revenues and expenditures to comply with the requirement by the EFA. It is referred to as the Everglades Trust Fund in the District's Comprehensive Annual Financial Report (CAFR).

The following table summarizes the estimated financial commitments made by various parties toward the Everglades Construction Project when the EFA was passed.

Group		Source	Amount (millions)
Industry		Agriculture Privileges Tax	\$ 234
		Subtotal	\$ 234
State & Local Governments		SFWMD - ad valorem tax (\$21.8 mil per year)	\$ 279
		P-2000 Fund	33
		State of Florida – Alligator Alley Tolls	30
		SFWMD FPL Mitigation Fund	14
		Subtotal	\$ 356
Federal Government		C-51 flood control project (STA 1 East)	108
		Subtotal	\$ 108
Interest Income			<u>15</u>
Total			<u>\$ 713</u>

¹ The Department Of Management Services no longer exists. Related functions were transferred, and currently reside in the Office of Financial Services.

OBJECTIVES, SCOPE AND METHODOLOGY

The overall audit objectives were to determine if revenues and expenditures for the ECP were properly identified and accounted for as Everglades Trust Fund transactions. The major categories of revenues and expenditures are listed below:

- | <u>Revenues</u> | <u>Expenditures</u> |
|---|--|
| <ul style="list-style-type: none">• Federal Funding• State Funding<ul style="list-style-type: none">➤ Excess Alligator Alley Tolls➤ P-2000• Local Funding<ul style="list-style-type: none">➤ 10th Mill Ad Valorem Tax➤ Agricultural Privilege Tax➤ FPL Mitigation Payments• Interest Income | <ul style="list-style-type: none">• Land Purchases• Engineering Cost• Construction Cost• Operating Costs (STAs) |

The scope of the audit encompassed the period from the inception of the project in FY 1994 through FY 1998. A Schedule of Activities by Revenue Source and Project Element for the Everglades Trust Fund for that period is included in Appendix II of this report.

During our audit we examined \$133.6 million out of \$175 million or about 76% of the expenditures² through September 30, 1998. Our methodology included the following:

- Reviewing internal controls over each major process that affects ECP accounting transactions.
- Selecting a statistical sample of revenue and expenditure transactions from the Districts accounting system using Auditors Control Language (ACL) software and examining supporting documentation for such transactions. Sampling parameters included every n^{th} transaction plus all transactions greater than \$500,000 (\$1,000,000 for land purchases).

² Actual expenditures through 9/30/98 were \$166.7 million, an additional \$8.5 million transfer of Alligator Alley Toll revenues to the Florida Bay was included in our review (see Appendix II for further details).

- Examining property deed descriptions and survey sketches to determine that land purchases were for property required for the Storm Water Treatment Areas (STAs).
- Reviewing payroll records to determine that the salary costs for those employees performing ECP activities were properly recorded.
- Testing the “Pooled Cash” interest allocation system to determine that investment income allocated to the Everglades Trust Fund was logical, fair, and reasonable.
- Reviewing significant budget transfers between the Everglades Trust Fund and other District funds to determine that such transfers were appropriate.

Our audit was conducted in accordance with generally accepted government auditing standards.



STA 5 Construction of G406 diversion structure 9/98

FINDINGS AND RECOMMENDATIONS

Results in Brief

Overall, the internal controls over revenues and expenditures were sufficient to ensure that transactions were executed in accordance with statutory requirements. ECP transactions generally reflected standard District accounting practices.

Revenues however, were understated by \$185,338 representing P-2000 funds used for ECP land acquisitions that were recorded in the District's Okeechobee and Save Our Rivers funds and were not transferred to the Everglades Trust Fund. In addition, there were a number of expenditures, related to legal, salaries, land acquisition and operations and maintenance costs, which should have been charged to the fund. In our opinion, expenditures in the Everglades Trust Fund are understated by \$2,134,190. Most of the expenditures were recorded in the General Fund and some were recorded in various Special Revenue funds.

Based upon our findings, we made 6 recommendations, all of which were accepted by management. Details of our findings and recommendations follow:



STA 1 G301 & G302 Inflow and distribution works 3/98

ECP Revenues Properly Accounted For

Our review of Federal, State, Local, and Investment income conclude that they were properly recorded in the Everglades Trust Fund and were collected and expended in accordance with grant agreements and enabling state statutes. Details for each revenue category follow:

1) Federal Funding

Funds received under the grant agreement with the U.S. Department of Interior (DOI) were properly recorded in the Everglades Trust Fund. The Federal government is responsible for STA-1E, however the District's Land Management Division is administering the land acquisition activities. Funding for the land purchases is provided through the \$46 million DOI grant agreement. The grant agreement also provides for reimbursement to the District for the cost of STA-1E land previously purchases by the District and paid for from the Everglades Trust Fund. The District has been reimbursed for the purchase price of these previously purchased parcels. Reimbursement for the associated acquisition costs is in process.

The District has received \$20 million as of September 30,1998.³ The balance of the funds will be used to purchase the remaining parcels in STA-1E. Acquisition of most of these parcels has resulted from eminent domain proceedings, some of which have not been settled yet. The results of these proceedings will determine whether the remaining grant funds will be sufficient to complete the remaining parcels. The U.S. Army Corp of Engineers will be responsible for any deficiency.

2) State Funding

State funding sources for the ECP included \$33 million from the Preservation 2000 Trust Fund (P-2000) and \$30 million in Excess Alligator Alley Toll revenues. The P-2000 funds were designated for land acquisition of STA property. As of September 30,1998 all \$33 million of the P-2000 funds have been received and appropriately expended for the intended purpose. However, \$185,338 of these revenues was recorded in other funds, see page 12 for further details.

³ The District has reported \$29 million in expenditures through 2/28/99 and receipts of \$28 million from the Federal Government. The balance due has been submitted to the Federal Government for reimbursement.

The District has received \$19,125,000 of excess Alligator Alley Toll through September 30, 1998. Fifty percent (50%) of these funds (\$9,562,500) was transferred to the Florida Bay Fund.

3) Local Revenues

Our audit results indicated that tax revenues designated for the ECP were properly recorded in the Everglades Trust Fund. The 1/10th Mill and Agricultural Privilege taxes are collected by county tax collectors and remitted to the District by mail or electronic funds transfer. (See our previous audit of the Everglades Agriculture Privilege Tax, Audit # 98-11)

4) Investment Income

The District consolidates cash balances for all funds into a "Pooled Cash" account. This facilitates investing of cash to achieve higher rates of return within the parameters of the District's investment policy. Interest income is allocated to all funds on a monthly basis based on the average daily cash balance in each fund.

Our audit results indicated that investment (interest) income was fairly allocated to the Everglades Trust Fund, which has earned \$21.6 million in interest income from its inception through September 30, 1998. This represents 9.2% of the total revenues recorded in the fund.

ECP Related Legal Cost Charged To General Fund

The Office of Counsel incurred \$1.5 million dollars in legal expenses defending and ultimately settling the International Technology, Inc. (IT) case. Only \$154,001 was charged to the Everglades Trust Fund. The remainder \$1,383,721, fully 90% of the litigation and settlement costs, was charged to the General Fund. The costs covered legal fees, Office of Counsel staff time, and a settlement payment.

In July 1997, the District disqualified IT's bid for the construction of STA 1W and STA-2. The bid was disqualified because the contractor did not meet the M/WBE goal requirements contained in the Request for Proposals. IT did not prevail in its bid protest before the Department of Administrative Hearing (DOAH). However, the company subsequently filed a federal lawsuit against the District challenging the constitutionality of the M/WBE program. The District settled with IT for \$574,972 in damages based upon the company's claim of actual bid and proposal costs, and estimated lost profits directly related to their disqualified bid for STAs 1W & 2 and an unsuccessful bid for construction of STA-5. Subsequently, under a separate bid, IT was awarded an ECP contract for the S5A Basin Diversion Project.

Office of Counsel charged \$154,001 of costs, which they associated with the DOAH proceedings to the Everglades Trust Fund, and charged all remaining costs to the General Fund. Based upon staff's recommendation, the Governing Board authorized that the settlement amount paid to IT be taken from District contingency funds rather than from the Everglades Trust Fund. Staff's rationale for their recommendation was that the M/WBE program challenge was directed at a District program that went well beyond the Everglades Construction Project even though a bid on the project was the point of entry for the complaint.

The allocation of the \$1.4 million to the General fund does not appear appropriate. It was clearly the intent of the legislature in establishing the EFA that ad valorem taxpayers should not be burdened with the entire cost, or costs arising from, the Everglades Construction Project. Separate dedicated funding was established for that purpose. However, the legislature, in passing the EFA restricted the use of ad valorem funds dedicated to the project to design, construction and acquisition of the Everglades Construction Project.

Resources used in the acquisition or construction of a capital asset are considered expenditures of the fund.⁴ Unexpected costs of construction or related costs may have a significant impact on capital budgets and project expenditures but, in our opinion, nonetheless should be properly charged to the fund.

Recommendation

1. **Appropriate accounting adjustments should be made to transfer \$1,383,721 to the Everglades Trust Fund (Fund 406).**

Management Response: Management concurs with these costs being charged against the project since there is such a strong relationship between the lawsuit and the project. We believe it is more customary to recover this type of expense through an indirect charge against each project since the rule challenge applies to a rule affecting all procurement not just this project. In this instance, there was no provision to charge an indirect cost established when the project funding was authorized by the Legislature. It is also customary to involve project managers (i.e. ECP Director) in issues and decisions that may impact project costs which was not done in this suit and settlement. Management shall be involved in future litigation. The audit findings do not recommend a short-term stratagem to insure similar problems do not occur with STA's which are about to go to bid. **Management recommends that either the board suspend all supplier diversity programs for short-term STA bids or donate an appropriate amount from non-ECP revenue to cover future legal costs. In addition, a donation of appropriate revenue (ad valorem to Everglades Trust) is recommended to cover the expenses outlined in this audit finding. Management also recommends that all litigation receive more vigorous and frequent assessments, to cut down on unproductive litigation expenses.**

⁴ "All expenditures necessary to bring the capital facility to a state of readiness for its intended purpose are properly chargeable as Capital Project Fund expenditures. Clearly, the direct cost of items such as land, buildings, materials, and labor would be included. Additionally, the total project cost would include such **related items** as engineering and architect fees, transportation costs, damages occasioned by the project, and costs associated with the endeavor." Underline added. Robert J. Freeman, Craig D. Shoulders, Governmental and Nonprofit Accounting, Theory and Practice, Fifth Addition.

Responsible Division: Executive Office and Office of Counsel

Completion Date: October 1999

Salary Costs For Employees Performing ECP Activities Are Understated

All of the District's salary, benefits, and related costs attributable to the ECP are properly chargeable to the capital project fund. The District's accounting system does a very good job of capturing these types of costs for employees that work full-time on the project and work in the Ecosystem Restoration Department. However, charges for both salary and leave of employees who spend only a portion of their time on the project were not properly recorded. As a result, the costs of the project and the related Everglades Trust Fund has been understated by \$428,023 including \$227,355 in salaries and an additional \$200,668 in leave. Details follow:

Our review of payroll records and discussions with District staff indicated that salary costs were understated by \$227,355. Following is a summary of the individual items identified.

Description	General Fund (Fund 101)	Okeechobee Basin Fund (Fund 202)
Two employees in the Procurement Division spent 50% of their time on ECP procurement.	\$ 92,179	
One leased employee spent 50% of his/her time on ECP activities.	12,503	
Two ECP employees were identified whose salaries were not charged and another employee spent 50% of his time on non-ECP activities.		\$ 117,492
A temporary employee in the Procurement Division spent 25% of his/her time performing ECP activities.	5,181	
Total Understated Salary Costs	\$ 109,863	\$ 117,492
Grand Total		\$ 227,355

Our review of payroll records indicated that leave time earned was understated by an estimated \$200,668. Following is a summary of the individual items identified.

	STA Operations & Maintenance (Fund 217)	General Fund (Fund 101)	Okeechobee Basin (Fund 202)
Salary/leave costs are understated by 22% for employees performing ECP activities.	\$3,113	\$46,101	\$151,454
Grand Total			\$200,668

Leave costs are generally accumulated in the fund where individual District employees are assigned; based on what the employees' primary activities are. As a result, no leave time was allocated to the Everglades Trust Fund for those employees who do not work on the project full-time or spend a majority of their time on the ECP. Further details will be provided upon request.

Recommendation

- 2. Appropriate accounting adjustments should be made to transfer \$227,355 in salaries and \$200,668 in leave expenditures to the Everglades Trust Fund (Fund 406).**

Management Response: The above-recommended adjustments will be made. Management will also begin to evaluate automated payroll systems that offer better project cost accounting on leave accrual and use in conjunction with investigating financial system upgrades.

Responsible Division: Ecosystem Restoration Department and Accounting and Financial Services

Estimated Completion Date: Adjustment: June 1999
Financial System Upgrades: October 2001

**Some Land Acquisition
Costs Not Recorded
In Everglades Fund**

Land purchases represented \$98 million or 56%, of total expenditures of \$175 million through September 30, 1998. We examined all transactions greater than \$1 million, which resulted in reviewing \$91 million or 93%, of total land acquisitions. Prior to the establishment of a separate account for the Everglades Trust Fund, the District incurred \$245,894 in land acquisition costs that should have been transferred into the Fund when it was later established.

We verified that \$33 million in revenues that the District received from State P-2000 funds were properly spent on acquisition of land relating to the project. However, the District's financial statement for the year ended September 30, 1998 reflects only \$32,814,662 in revenue. We found that the difference, \$185,338, represents land pre-acquisition costs that were initially recorded prior to 1994 in the District's Okeechobee and Save Our Rivers funds and were not transferred to the Everglades Trust Fund. Land pre-acquisition costs include appraisals, environmental risk assessments and title commitment costs that are typically included as capital project costs.

An additional \$60,556 of non P-2000 revenues were used for Everglades pre-acquisition cost but were similarly recorded in other funds.

Recommendations

- 3. Appropriate accounting adjustments should be made to transfer \$245,894 in expenditures to the Everglades Trust Fund (Fund 406).**

Management Response: These costs while related to the ECP were incurred approximately a year prior to passage of the EFA and establishment of the ECP fund. As such, it will be impossible to adjust the Everglades Trust Fund but management will adjust all reporting on ECP expenditures to include these amounts.

Responsible Division: Construction and Land Management
and Accounting and Financial Services

Estimated Completion Date: June 1999

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4. The District's financial statements and reports should be adjusted to reflect the full \$33,000,000 of State P-2000 revenue by transferring \$185,338 into the Everglades Trust Fund.

Management Response: For the same reason as stated in #3, the adjustment can't be made to the fund, but again this adjustment will be included on all reporting on ECP expenditures and revenue.

Responsible Division: Construction and Land Management
and Accounting and Financial Services

Estimated Completion Date: June 1999

STA Operations and Maintenance Expenditures Under Reported

The Clewiston Field Station of the Operations and Maintenance Department has been incurring costs to operate and maintain the two completed Storm Water Treatment Areas (STAs) 5 and 6. Provisions for operations and maintenance of the STAs are provided for in the Everglades Forever Act. The Act provides for separate dedicated funding and also requires the District to separately account for all moneys used for the purpose of funding the project. Therefore, costs for operations & maintenance should be separately accounted for. Accordingly, in Fiscal Year 1999 the District's Accounting and Financial Services Division established a special fund, "STA Operations & Maintenance" (Fund 217), and began accumulating applicable costs in that account.

Our review disclosed that \$76,552 in Fiscal Year 1998 costs incurred prior to the establishment of the new fund, were charged to the Okeechobee Basin Fund (Fund 202), which resulted in funding STA operations and maintenance with ad valorem tax revenues instead of ECP funding. This effectively resulted in: 1) under reporting the actual costs of the project and 2) a misapplication of general ad valorem tax revenues. Going forward this should not be a recurring problem providing that all ECP related operations and maintenance costs are properly recorded in Fund 217.

Recommendation

- 5. Appropriate accounting adjustments should be made to transfer \$76,552 in expenditures to the STA Operations & Maintenance Fund (Fund 217).**

Management Response: As indicated in the report, Fund 217 was established in FY99. However, the Operations and Maintenance Department (OMD) developed expenditure reporting categories in July of 1997. When the fund was established in 1999, it was confirmed that during construction OMD should continue to utilize the reporting categories with Fund 406 to track the costs until the project responsibilities were turned over to OMD, at which time Fund 217 would be utilized.

OMD agrees with the Audit Findings and concurs with Recommendation Number 5. Affected OMD managers are knowledgeable of the changes. It has been reiterated to the OMD managers that any work performed on ECP projects must be reported accurately. The proper coding, including

the fund and definitions of work, will be verified and monitored by the supervisors. This will continue to be reinforced at the OMD Managers Meetings.

Responsible Division: Operations and Maintenance and
Accounting and Financial Services

Estimated Completion Date: June 1999

Other Expenditures Properly Recorded

We tested expenditures⁵ and found that with few exceptions, the internal controls over engineering, construction and other costs were sufficient to ensure that transactions were processed in accordance with District policy and good business practices, and that transactions were properly recorded in the Everglades Trust Fund. We did find that two payments of \$521,494 each were made earlier than required for a contract involving overhauling used pump engines.

One payment was made 9 days too early and another was made 26 days early. Making payments sooner than necessary results in loss of investment income to the District. In this case the estimated loss, based on a 5% rate of return, which approximates the District's rate of return on invested cash, is \$2,500.

Recommendation

- 6. Project Managers should be advised to familiarize themselves with contract terms prior to processing invoices for payment.**

Management Response: Management concurs.

Responsible Division: Ecosystem Restoration Department
Accounting and Financial Services

Estimated Completion Date: June 1999

⁵ Sampling parameters included every nth transaction plus all transactions \$500,000 and greater. These sampling parameters resulted in examining \$28,100,000 out of a total of \$62,500,000, or 45%, in total engineering, construction, and other costs.

APPENDICES

Appendix I ([Click here to access](#))

Appendix II ([Click here to access](#))